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Concurred in by the
INTELLIGENCE ADVISORY COMMITTEE

on 14 January 1958. Concurring were The Director of Intelligence and Research, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Assistant Chief of Staff, Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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THE FEDERATION OF MALAYA

THE PROBLEM

To estimate the prospects for the political stability, economic viability, and internal security of the Federation of Malaya, and its probable international orientation over the next few years, and to estimate probable trends in Federation-Singapore relations.

SUMMARY AND CONCLUSIONS

1. The Federation of Malaya, unlike most other former colonial states in Southeast Asia, began independence with little ill-feeling for its former ruler and with a generally capable government. The leaders of the new nation are faced, however, with the task of welding the indigenous Malays and the alien and unassimilated Chinese and Indians into a unified national community. Meanwhile, antagonism and rivalries between the Malay and Chinese groups, almost equal in size, will be increasingly difficult to hold in check.

2. Despite growing difficulties, the Alliance¹ parties will probably continue their coalition through the national elections, now scheduled for August 1959. Under the guidance of Prime Minister Rahman, the Alliance will probably be returned to

office but with a considerably reduced majority. Over the longer run, increasing communal tensions are likely to lead to the disintegration of the present racial coalition and to political turmoil.

3. The Federation will probably continue its policy of curtailing its ties with Singapore, despite certain consequent economic sacrifices, and there is little prospect for a Federation-Singapore merger in the foreseeable future.

4. Barring a major break in the international rubber and tin markets upon which the Federation's economic well-being depends, the outlook is for general economic stability and for some progress under the government's financial reform and economic development programs. However, the high rate of population growth and popular expectations of higher living standards under an independent government will place heavy demands on the economy and aggravate any economic setback.

¹The Alliance is a coalition of the three main racial parties, the United Malay National Organization, the Malayan Chinese Association, and the Malayan Indian Congress.

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5. The Communist guerrillas are no longer a serious military threat to internal security. Although we do not believe the government will accept terms which would permit the Communists to operate as a legal party, some basis may be found to negotiate an end to the Communist armed resistance before the 1959 elections. The Malayan Communist Party will probably continue to shift emphasis away from armed insurrection and toward building a united front, and will probably be able to capitalize on Malay-Chinese tensions and to operate with increasing effectiveness among youth groups and organized labor.

6. The Federation's still evolving foreign policy is at present oriented toward the Free World. It is a member of the British Commonwealth and the sterling area and retains close economic and security ties with the UK. This orientation will probably continue over the next few years, but the presently discernible neutralist trend will probably increase. It is unlikely that the Federation will join SEATO or recognize either Communist China or Nationalist China. However, an end to the Communist armed insurrection would probably increase domestic pressures for neutralism and for a closer relationship with Communist China.

THE OUTLOOK

7. The Federation of Malaya² began independence with a moderately conservative, pro-Western government and a relatively sound economy. Beneath the appearance of internal stability, however, Malaya's population of 6.4 million is sharply divided into Malay³ (49 percent), Chinese (39 percent), and Indian (11 percent) racial communities, separated by differences in culture, religion, and language. The size and economic power of the unassimilated Chinese community accentuates the long-standing conflict of political and economic interests between the Chinese and the indigenous Malays and complicates the new nation's task of attempting to weld the racial groups into a unified national community.

²The Federation of Malaya includes the Malay states of Johore, Kedah, Kelantan, Negri Sembilan, Pahang, Perak, Perlis, Selangor, and Trengganu, and the former Straits Settlements of Penang and Malacca. Singapore, which remains a Crown Colony, is discussed in Annex D.

³The word Malay refers throughout this paper to the ethnic group. The word Malayan includes all permanent residents of Malaya, whether Chinese, Indian, or Malay.

⁴See Annex A for a fuller discussion of the current political situation.

A. POLITICAL STABILITY⁴

8. Stimulated by a common desire for independence, the three main racial parties, the United Malay National Organization, the Malayan Chinese Association, and the Malayan Indian Congress, in 1951 formed a coalition known as the Alliance. Under the astute leadership of Tengku Abdul Rahman, the present Prime Minister, the leaders of these parties reached a compromise regarding the Federation's constitution, which provides special privileges and a favored political position for the Malays, but which, at the same time, protects the Chinese and Indians from arbitrary discrimination. The three Alliance parties have continued to work together since independence, but with increasing difficulties.

9. The United Malay National Organization, led by Rahman, is the largest and best organized political party in the Alliance and dominates the government. It has supported Rahman's approach of moderation and of compromise toward the Chinese and Indian communities because it realized that British willingness to grant independence depended in part on a demonstration that the racial groups could work together. Party members

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have been willing to acquiesce in concessions to other racial groups so long as the dominant political position of the Malays in the Federation was preserved. Since independence, however, some groups have emerged, particularly among the youth, which represent a more extreme "Malaya for the Malays" point of view and oppose concessions to the Chinese and Indian communities as a betrayal of the national heritage and birthright of the Malays. These ultra-nationalist trends place an increasing pressure upon the party leaders for strong support of Malay privileges and may lead to some splintering and to an increase in the strength of the now small Malay opposition parties.

10. The Malayan Chinese Association is led by a group of Chinese businessmen who have a large economic stake in the country and have an interest in the development of a Malayan nation. They have been willing to cooperate with the United Malay National Organization largely because they hoped to preserve their economic position and prevent excessive discrimination against the Chinese. As the major source of Alliance funds, they have been able to exercise considerable influence over Alliance decisions. The willingness of the Association's leaders to cooperate with the Malays could not be effectively challenged because there has been no other organized national Chinese political group (except the outlawed Malayan Communist Party, estimated to be 95 percent Chinese). Nevertheless, because of the Association's close relationship with the United Malay National Organization, and its acquiescence in a secondary political role for the Chinese, it does not have a broad base of support within the Chinese community. In particular, Chinese youth have not been attracted to the Association. Young Chinese, like most of their elders, are opposed to assimilation and to any effort to break down their cultural integrity or feeling of kinship with mainland China. These circumstances are conducive to the creation of a Chinese political opposition.

11. The Malayan Indian Congress has little influence over political developments in the Federation. It will probably remain politi-

cally weak and unimportant because of the relatively small number of Indians in Malaya and its lack of financial resources.

12. The trends toward political disunity in Malaya have not yet gained sufficient momentum to endanger the Alliance. In the first national elections scheduled for August 1959, most of the Malays, who represent a substantial majority of the electorate, will probably continue to support the United Malay National Organization. Under Rahman's leadership, it will almost certainly retain a dominant position in the Alliance and the government. Barring a serious economic crisis, we believe the Alliance will win the 1959 elections, although its present overwhelming parliamentary majority will almost certainly be reduced. The more important opposition forces will probably be generally leftist in orientation and adopt extremist Malay and Chinese positions on communal issues.

13. Despite the success of the Alliance in reaching an accommodation between the Malays and Chinese, the underlying tensions will continue to be a basic source of political instability. These tensions, arising out of the suspicions which have developed among racial groups through years of community and cultural exclusiveness, now center on the question of which group will ultimately dominate the Federation. In an effort to reduce these tensions, the government has continued a British-initiated program intended to encourage the re-direction of Chinese loyalties towards Malaya and create a common sense of national loyalty. This program includes increased Chinese participation in political affairs and in the civil service. Implementation of this program has run up against strong Chinese resistance to assimilation and requires continual adjustments among the racial communities in such matters as land use, commercial privileges, and civil rights. The most sensitive aspect of the program is the government's effort to bring the separate Chinese schools under Federation supervision. This effort has already caused Alliance losses in local government elections in urban areas and has precipitated a few riots and demonstrations.

14. Over the longer run, present political trends point toward a future of political turmoil in the Federation. The mutual suspicions and conflicts of interest between the Malay and Chinese communities will probably force the United Malay National Organization and the Malayan Chinese Association to adopt increasingly extreme positions in defense of the interests of their own racial groups. A strong left-wing Chinese opposition party will probably develop, and Chinese discontent with their political position will increase the susceptibility of the Chinese community to Communist activity. The United Malay National Organization will probably lose strength to ultranationalist Malay parties and, in time, this organization may split into several competing parties. This could lead to an end of the Alliance as an effective political coalition, and provide a Chinese party the opportunity to wield the balance of power in a weak coalition government.

B. INTERNAL SECURITY⁵

15. Primarily as the result of a major British effort over the past five years, the Communist guerrillas have been reduced to about 1,700 and are now mostly located in remote jungle areas. Although they retain a capability for raids and terrorism, they do not pose a serious military threat in view of the combined strength of the Federation security forces and of the Commonwealth troops available under the terms of the Anglo-Malayan Defense Agreement.

16. We estimate that the illegal Malayan Communist Party numbers about 5,000. Party leaders have been unwilling to accept the Federation government's terms of surrender and are endeavoring to conserve their armed strength in hopes that they can negotiate terms in the future which will permit them to engage in united front activities and political subversion. There are pressures on both sides to reach a settlement. From the Communist point of view, the morale of the guerrilla forces is deteriorating, and continuation

⁵ See Annex B for a fuller discussion of the internal security situation and of the Anglo-Malayan Defense Agreement.

of the jungle war offers little hope of gaining its objective and prolongs the presence of Commonwealth troops in Malaya. On the other hand, the Federation government is under pressure to end the restrictive regulations imposed to further the war effort and to concentrate on communal problems and economic development. The Federation government will probably progressively reduce these restrictive regulations. Although we do not believe the government will accept terms which would permit the Communists to operate as a legal party, some basis may be found for negotiating an end to the Communist armed resistance before the 1959 elections.

17. Whether or not there is an agreement with the Malayan Communist Party to end the jungle war, the Federation government will have to cope with increasing Communist subversion, particularly in the labor movement and in the Chinese middle schools. In addition, the Communists will be able to exploit continuing racial tension in the Federation and the growing prestige of Communist China among many Malayan Chinese. A growth of Communist strength in Singapore would further increase the Federation's problems with subversion. These factors, in conjunction with a growth in Malay ultra-nationalistic sentiments and in Chinese dissatisfaction with the Malayan Chinese Association, could lead to the formation of new Chinese political groups with stronger pro-Communist leanings. However, we believe the Federation, supported by the British, will probably be able over the next few years to prevent the Communists from endangering the position of the government.

C. FEDERATION-SINGAPORE RELATIONS⁶

18. Federation leaders are opposed to a merger with Singapore and are in fact seeking to reduce ties with the Colony. The Malays oppose a merger because the addition of Singapore's Chinese population to that of the Federation would make the Chinese a numerical majority. Moreover, they believe that the outlook for internal security and for substan-

⁶ See Annex D for a discussion of the situation in Singapore.

tially reducing Communist activity and subversion in Singapore is poor, and therefore believe that merger would greatly increase their own problems. Given these conditions, it is almost certain that merger will not take place so long as a Malay-dominated government is in power in the Federation.

D. ECONOMIC STABILITY AND PROGRESS¹

19. The Federation began its independence under favorable economic conditions. However, its prosperity depends almost entirely upon prevailing world prices of its two basic resources, rubber and tin. At present, its economy is healthy and growing; its trade position is favorable, and its currency is sound. The Federation will probably remain within the sterling area and continue to be a major contributor to the area's dollar pool. The economy can probably withstand short term declines in rubber and tin prices, but a major and prolonged decline of these prices would create severe economic problems.

20. Consistent with their attitude toward the proposed merger with Singapore, Federation leaders have adopted a policy of curtailing economic ties with the Colony. This involves the establishment by the Federation of a separate currency and central bank, and the creation of its own commercial, financial, and port facilities. While designed to develop institutions more responsive to the needs of the Federation's economy, the government's policy also will entail some financial risks, reduce the efficiency of commercial transactions, and require the expenditure of private and public funds to build new facilities. It will place heavy demands on the Federation's limited number of trained administrators, a problem which can be reduced to the extent the Federation is willing to enlist expert assistance from Western countries.

21. The high rate of population growth, now slightly over three percent per year, places severe demands on the economy for corresponding expansion. In addition, the Federation will probably face the problem, common

in most newly independent nations, of unrealistic public expectations for improved living conditions. To meet these problems, as well as to cushion the Federation's dependence on tin and rubber, the government has adopted a comprehensive and realistic plan for economic development and diversification. The plan calls for the expenditure of US \$444 million from 1956 through 1960. The Federation's economy will probably make some progress over the next few years, but will be hard put to keep economic expansion ahead of population growth.

E. INTERNATIONAL ORIENTATION

22. The Federation has retained close links with the UK by remaining within the Commonwealth and the sterling area, by the Anglo-Malayan Defense Agreement², by trade, and by financial agreements which provide for substantial amounts of British economic aid. British nationals occupy about one-third of the principal governmental posts, and most of the Federation's future foreign service officers are now being trained by the Australians and the British. The government's foreign policy, although still in process of formulation, is oriented generally toward the Free World. This orientation will probably continue, at least until the 1959 parliamentary elections. However, opposition to continuing close ties with the West is represented both by Malay groups favoring a closer relationship with the Afro-Asian countries and by Chinese groups supporting closer ties with the Sino-Soviet Bloc. These groups will exercise increasing pressure upon the government's foreign policy.

23. The Federation, admitted to the UN immediately after independence, has extended recognition to practically all UN members with the major exception of Nationalist China. It has withheld recognition of Communist states not in the UN, including Communist China. The Federation government probably will not recognize Nationalist China or Communist China within the next few years because such recognition would create addition-

¹See Annex C for a fuller discussion of the economic situation.

²See paragraph 13 of Annex B for details of this agreement.

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al difficulties for the Federation government among the Malayan Chinese. However, recognizing that the large Chinese community looks to the mainland as its cultural home, the Federation leaders will become increasingly concerned over growing internal pressures for the recognition of Communist China. In addition, the Federation's heavy dependence on rubber exports offers an opportunity for Sino-Soviet Bloc economic penetration.

24. The Federation's policies toward neighboring countries are not yet fully defined. The Malays and the Indonesians are of the same racial, linguistic, cultural, and religious background. There is a great deal of personal rapport between the Malays and the peoples of Sumatra. Although Malaya and Indonesia have remained on generally friendly terms, Federation leaders have displayed increasing concern over the political situation in Indonesia because they fear that continued Communist advances could result in serious political and economic repercussions in Malaya. With Thailand, the problem of closing the Thai border to the Malayan Communist

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Party guerrillas has caused some difficulty, but relations have remained generally friendly. There are important economic ties between the two countries, and Thailand supplies about 20 percent of the Federation's annual rice requirements.

25. There is among some elements of the Federation a tendency to follow a policy of neutralism such as espoused by India and Burma. These elements believe that the Federation should rely on the UN rather than the Anglo-Malayan Defense Agreement for protection, should ally itself with the Afro-Asian countries, and thereby avoid being drawn into the cold war. In particular, there is considerable opposition in the local press and among politicians of all parties to joining SEATO. The Federation leaders probably feel that they have secured all the practical advantages of SEATO membership by means of the Anglo-Malayan Defense Agreement and will probably take no action on SEATO membership in the foreseeable future. Tendencies toward neutralism are not yet prevalent, but they will probably increase in the future.

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ANNEX A

THE POLITICAL SITUATION

A. The Communal Problem

1. The Federation of Malaya has a population of about 6.4 million, divided approximately into 3 million Malays, 2½ million Chinese, and 700 thousand Indians. These three ethnic groups maintain their separate cultural, religious, and linguistic identities, and the Chinese and Indian communities have strongly resisted assimilation. The existence of these three racial groups, each with its own prerogatives and economic interests built up during the colonial administration, tends to dominate the political life of the Federation. This communal problem is a basic factor in the Federation's constitution, its government, its economy, and its political party system.

2. The Malays generally lack the skills and ambitions of the other racial groups. Most of them are Moslems, living in rural areas and occupied with farming and fishing. Many have small rubber holdings. Under British rule, the Malays were protected against the more energetic Chinese. They were given a preferred status in government service, in civil and political rights, and in land ownership. Their schools were supported by the government, and, as citizens, they had certain rights denied to others. Educated and ambitious Malays have generally entered government service or politics rather than attempt to compete with the Chinese and British in the economic sphere.

3. The Chinese in the Federation have tended to avoid political activity and have been content to concentrate on commercial activities. As in other Southeast Asian countries, the Malayan Chinese have gravitated to the urban centers and have come to dominate important segments of the Federation economy, particularly commerce, foreign trade, tin mining, and

rubber processing. With the less numerous Indians, the Chinese provide most of the Federation's skilled and semi-skilled labor. Probably half the Malayan Chinese were born in China and most of the others attended Chinese schools in Malaya. They are generally oriented toward the Chinese mainland and have maintained separateness by clinging to their Chinese culture and their closed society. Prior to independence, only a small number of Chinese eligible for citizenship took advantage of that right. Most were satisfied to forego political rights so long as the British were present to protect them against economic discrimination.

4. The Indian community, like the Chinese, was attracted to Malaya by economic opportunities afforded by the British development of the country and by the protection of the British colonial administration. Most of them are low-caste Tamils. They make up a large portion of the manual labor force of the Federation and have been especially active in trade union activities, where a few individual Indians have achieved some political significance. However, because of their fewer numbers, the Indians as a community have not been a major economic or political force and exercise little influence over developments in the Federation.

5. There have been few serious race riots in Malaya, and, generally speaking, the members of the three communities get on well together as individuals in their day-to-day relationships. The frictions and tensions exist primarily on a group level and grow out of economic competition and envy, and the desire of each group to maintain its prerogatives. Since independence ended the British role as buffer and arbiter among the racial groups,

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their mutual suspicion and sense of insecurity have increased. The leaders of the Chinese community realize they must increase their political strength in order to protect their economic position and their separate culture from the Malay-controlled government. The Malays, on the other hand, are determined to maintain their dominant political position and to play a larger role in the nation's economy.

6. During the last years before independence, the British inaugurated a program designed to encourage the re-direction of Chinese loyalties towards Malaya and create a common sense of national loyalty. This program is now a major aspect of the Federation government's domestic policy. It includes efforts to bring the Chinese community schools under government control, to establish Malay as the national language in schools and the government, and to encourage the Chinese to participate, to some extent, in government service. To date, the program has made little headway. However, present indications are that an increasing number of Chinese may take advantage of the relaxed citizenship requirements under the new constitution.

B. The Constitution

7. Alliance leaders, demonstrating a high degree of statesmanship and ability to compromise, worked effectively with a special Commonwealth commission organized to prepare a constitution for the Federation, and their ideas were generally incorporated into the final document. The constitution is designed to preserve the basic Malay character of the country, but it also provides protection for the interests of the non-Malay communities. It calls for a parliamentary democracy with a strong central government, and incorporates most of the features of the British system. It contains a standard bill of rights, including the right to vote for all citizens over 21 years of age.

8. Executive power is centered in a responsible cabinet headed by a Prime Minister. To provide political stability during the immediate post-independence period, the constitution specifies that the present Legislative Council,

elected in 1955, will remain in office until 1959, when the first general elections will be held and a two-house parliament formed. The upper house will consist of two elected representatives from each state and 16 appointed from professional and cultural groups. The lower house of 100 members will be elected from the country as a whole. The Prime Minister must be a member of the lower house.

9. The Sultans, hereditary rulers of the nine Malay states, retain their positions. Collectively, they form a Conference of Rulers which elects from its membership the Head of State (Paramount Ruler) who serves for a five year term. The Paramount Ruler has the usual prerogatives of a constitutional monarch and a special responsibility to protect certain Malay privileges pertaining to land ownership, government service, and business licenses. On behalf of the Conference of Rulers, he can veto laws affecting religious matters and the privileges of the Sultans themselves. In turn, the constitution calls for the adoption of a parliamentary democracy in each of the nine Malay states and the two former Straits Settlements, Penang and Malacca, with an elected unicameral legislature, a responsible head of government, and a constitutional ruler (the Sultans in the nine Malay states and governors appointed by the Paramount Ruler in Penang and Malacca). The state governments have autonomy in matters of Moslem law, land tenure, agriculture and forestry, and local government services.

10. The constitution establishes Malay as the national language but provides for the use of English as an official language for 10 years. Islam is designated as the state religion, but religious freedom is guaranteed. The constitution provides that all Malays are automatically citizens, that all citizens prior to independence retain that status, and that all persons born in the Federation after independence become citizens. Non-Malays residing in the Federation can qualify for citizenship if they are of good character, have an elementary knowledge of Malay, and meet certain residence requirements. During the first year of independence, the language requirement is waived for all applicants born in the

Federation and all those over 45 years of age. The constitution can be amended legally only by a 2/3 vote of Parliament, thereby insuring, at least for the foreseeable future, the dominant position of the Malays.

C. The Government

(1) LEGISLATIVE COUNCIL

11. The present 98-seat Legislative Council took office in August 1955. Forty-six of its members were appointed by the High Commissioner and 52 were elected. Fifty-one of the elective seats were won by the three communal parties which make up the governing Alliance party.¹ The Alliance party members elected include 34 Malays, 15 Chinese, and 2 Indians. Of the 46 appointed members, five were selected after consultation with the United Malay National Organization as the major party, five were designated British officials, and 36 were selected from commercial, labor, racial and local interests. This Legislative Council, with a few changes due to vacancies, will govern the Federation until the first general elections scheduled for August 1959 and the organization of a regular parliament.

(2) THE CABINET

12. The dominant political figure in the government, and undisputed national leader, is Prime Minister Tengku Abdul Rahman. He is 54 years of age, Cambridge educated, and the son of the Sultan of Kedah and a Thai princess. Despite his royal background, Rahman has the common touch which enables him to associate easily and effectively with the Malayan people. As Chief Minister, he directed the independence negotiations with the British and now enjoys nationwide prestige as the "father of Malayan independence." Rahman is anti-Communist, generally pro-West, and represents the moderate, rational approach to the Federation's racial problems. His political astuteness and ability to com-

promise have enabled him to hold together the racially diverse Alliance without losing the support of the Malay community. His ability, moderation, and relatively secure position as the national leader of the Federation were important factors in the British decision to grant independence when they did.

13. Prime Minister Rahman, who also holds the foreign affairs portfolio, has been careful to retain the appearance of multi-racial compromise in forming his cabinet. However, the Malays clearly exercise the strongest influence. Second to Rahman in importance is Abdul Razak bin Dato Hussein, Deputy Prime Minister and Minister of Defense. Although more reserved in his dealings with the Chinese than Rahman, Razak has followed Rahman's approach towards reconciling communal differences, and as former Minister of Education he played a key role in drafting a compromise Alliance plan for bringing Chinese schools within the national educational system. Other important Malay leaders hold the Ministries of Justice, Agriculture, Education, and Communications in the cabinet. Leaders of the Chinese community head the Ministries of Labor, Commerce and Industry, and Finance. The principal leader of the Indian community is Minister of Health. Although Rahman was guided largely by political considerations in forming his cabinet, he has assembled a generally competent group of men who, with the aid of experienced British advisers, provide an efficient administration.

D. Political Parties

14. The Alliance, an association of the three major communal parties, the United Malay National Organization, the Malayan Chinese Association, and the Malayan Indian Congress, was formed in 1951 as a united front to work for national elections and Malayan independence. The United Malay National Organization has a preponderant hold on the Malay community and is the strongest of the Alliance parties. Under Rahman, who has been party president since 1951, it has built up a strong and fairly well-disciplined national organization with a large and active youth section. Much of the Organization's strength

¹ In the Ipoh by-election of 27 November 1957 a Ceylonese defeated the Alliance Chinese candidate in a predominantly Chinese district lowering to 50 the number of seats held by the Alliance.

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is derived from its leadership in the independence movement. This position in turn enabled the party to keep a hold upon Malay nationalistic sentiment and to reconcile within its organization diverse elements in the Malay community, ranging from conservative, orthodox Moslems to radical, nationalistic youth groups.

15. The Malayan Chinese Association, the second largest of the Alliance parties, has been controlled by a small group of wealthy and conservative Chinese and has never succeeded in building a wide base of support among the Chinese. It has been hampered by the political apathy of the Chinese prior to independence and by the opposition of many Chinese to the dominant role of the Malays in the Alliance. Furthermore, the party has not attracted Chinese youth, particularly in the Chinese middle schools. Despite its defects and the factional struggles among its leaders and branches, the Malayan Chinese Association is important to the Alliance as a major source of funds and as the only source of Chinese support and participation in the government.

16. The Malayan Indian Congress has little or no influence on Alliance decisions. The party's impotence reflects both the numerical and economic weakness of the Indian community and its lack of leadership and party discipline. Its importance to the Alliance is primarily the justification for claiming support from all three racial communities, rather than its electoral strength.

17. Political opposition to the Alliance is weak and poorly organized. Dato Onn, formerly one of the leading Malay politicians and the founder of the United Malay National Organization in 1946, has lost most of his following and influence. In 1952 he founded the Party Negara (National Party) and has led it to an increasingly extremist Malay position, attacking the constitution, the United Malay National Organization, and the Alliance as destructive of the Malay position. The Pan-Malayan Islamic Association, originally a con-

servative religious party dedicated to creation of an Islamic state, is led by Dr. Burhanuddin Al-Helmy, one of the most extreme Malay nationalists. It was the only non-Alliance party to win a seat in 1955 Legislative Council elections. Neither of these parties has as yet achieved national strength, and their future will depend upon the growth of ultranationalistic sentiment among the Malays. The People's Progressive Party, which holds the second non-Alliance seat in the Legislative Council, at present is a local organization. It is led by D. R. Seenivasagam, an aggressive left-wing Ceylonese who may be able to build it into a national opposition party.

18. The Labor Party of Malaya, made up of Indian and Chinese workers, is led primarily by Indians. It has joined with the Party Rakyat, a leftist Malay group, to form a National Socialist Front as a left-wing, non-Communist opposition. The weakness of this coalition results from the lack of appeal of socialist doctrine among the Malays and the present political impotency of labor. Most of the Indians and Chinese, who make up the majority of the labor force, either did not meet citizenship qualifications or were uninterested in becoming citizens before independence. Moreover, existing law prohibits trade unions from engaging in political activity.

19. There is no legal political party outside of the Alliance for the expression of purely Chinese communal interests. However, recent successes of the Labor Party in local by-elections indicate that it may be able to attract increasing support from Chinese and Indian groups who will make up a larger share of the electorate than previously with the implementation of the new constitution. The Malayan Communist Party, the membership of which is about 95 percent Chinese, has been outlawed since 1948 when it began its armed uprising. During debate of the constitution, the Chinese Federation of Guilds and Associations and the Chinese Chambers of Commerce were spokesmen for the Chinese opposition view.

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ANNEX B

THE SECURITY SITUATION

A. Communist Activities

1. During 1957 Communist guerrilla activities dropped to the lowest point since the beginning of the armed uprising in 1948. The Emergency regulations, promulgated by the British early in the Communist uprising for furthering the war effort, remain in force. Commonwealth forces continue to assist in anti-guerrilla operations and the Federation government hopes to be able to lift the Emergency by mid-1958.

2. *Communist Strength and Capabilities:* The Malayan Communist Party is estimated to have a strength of about 5,000, about 95 percent of whom are Chinese. Its armed element, the Malayan Races Liberation Army, is estimated to number about 1,700, now in small groups scattered through remote jungle areas. The largest concentrations are in the states of Johore, Perak, and Kedah, the latter two posing the most difficult problem because they are adjacent to the Thai border. Reportedly, about 25 percent of the Communists' armed forces, and their headquarters, are near or in Thai territory. Comparatively little is known about the *Min Yuen* (People's Organization), which supplies the Communist guerrillas with food, medicine, and intelligence, but it is considerably larger than the Malayan Communist Party. Though weakened and isolated, the Communist armed forces retain a capability for terrorism and raids. So long as the party chooses to maintain armed units, it can pin down substantial numbers of Commonwealth and Malayan troops and impose a burden on the Federation's budget.

3. *Communist Policy:* According to a new Manifesto dated 1 September 1957 the Malayan Communist Party is endeavoring to develop a "united front" in labor organizations,

political parties, and schools, and to exert pressure on the Federation government to end the Emergency on terms favorable to the Communists. These terms include acceptance of the Malayan Communist Party as a legal political party, and the restoration of the privileges of full citizenship to the outlaw leaders. As early as 1954, the Malayan Communist Party acknowledged its inability to overthrow the government by force and began efforts to promote a united front organization. However, it has been unable to negotiate an agreement with the government which would enable it to retain the hard core of its leadership. In December 1955, party secretary general, Chen Ping, emerged from the jungle for a series of talks with Federation government leaders. The latter refused at that time and again in December 1957 to grant legal recognition to the party or to bargain for the fate of the guerrillas as the price for ending the Communists' armed resistance. With their numbers reduced, their area of operations restricted, a growing morale problem within their ranks, and little hope of improving their position in the jungle war, the Communist leaders are clearly anxious to reach an agreement to end the war and to shift to political competition and subversion.

4. *Communist Subversive Tactics:* Since 1948, the Malayan Communists have devoted the major part of their energies to armed insurrection, leaving their subversion and political infiltration efforts with a minimum of leadership and support. The central theme of its propaganda is the building of a united front against the "colonialists." While independence has reduced the effectiveness of this theme considerably, Malayan Communist propaganda continues to charge the government with "selling out to the British." At

the same time, the Communists claim full credit for obtaining independence for the Federation on the basis that its activities forced the British to relinquish control. They are also seeking to increase pressures for elimination of Commonwealth armed forces and strategic bomber bases in the Federation.

5. Students of the Chinese middle schools are a major target of Communist propaganda and subversion. These students are subject to the full play of the communal problem; their opportunities to secure higher education or to obtain work commensurate with their training are limited; they are susceptible to the appeal of Communist China's accomplishments; their teachers are subject to Communist influence; their schools have been undisciplined, and school facilities often inadequate. A number of Chinese students go to the mainland for higher education. However, there was a 40 percent drop from 1955 to 1956 in the number of school age Chinese going from Malaya and Singapore to mainland China. This may result, in part, from Peiping's increasingly selective policy in choosing overseas students, and in part from Malayan Communist policy of encouraging its most promising prospects to stay and continue the struggle in Malaya. However, local authorities in Malaya cite disenchantment with conditions and opportunities on the mainland as the major factor in the decline.

6. Present Communist subversion of labor in the Federation is limited by its loss of contact during the eight-year armed struggle and by the lack of a large, well-organized, labor movement. In mid-1957, Federation statistics listed nearly 300 separate unions, either registered or awaiting registration, with a claimed membership of about 250,000. During 1956 there was some increase in labor unrest which, however, has not been a serious problem for the Federation since 1947 when the Communists, who had at that time a strong grip on the labor movement, were attempting to seize the country. Although most of this increased agitation was probably caused by union organizing efforts, part of it can be ascribed to some increase in Communist activity in the labor movement.

7. Communist subversive efforts in Malaya have also received limited support from mainland China. The Chinese Communist Bank of China with branches at Singapore, Kuala Lumpur, and Penang, has apparently had some success in winning the favor of Chinese businessmen by its willingness to make virtually unsecured loans. Radio Peiping provides the great bulk of information for Communist propaganda in Malaya. Chinese Communist trade overtures toward the Federation have been initiated although not on the same scale as elsewhere in Southeast Asia.

B. The Federation Security Forces

8. The Federation army consists of approximately 11,500 officers and men. It is organized into two operational brigade headquarters and includes eight infantry battalions, two armored car squadrons, an artillery cadre, and the nucleus for technical and logistical support. A major problem is the acute shortage of indigenous officer personnel. At present, more than half the officer corps are British detailed to the Federation. They hold all but one of the major staff positions and command all but two of the combat and technical service units. Troop morale and reliability is high. The army is trained, experienced, and efficient in small unit, anti-guerilla, jungle warfare. In addition there are about 22,000 regular police, 24,000 special constables, and 110,000 in the Home Guard.

9. Present plans are to increase the Federation army by 2,000 to 5,000 men over the next two years and, during 1958, to reduce to 42,000 the size of the Home Guard. By means of intensive training of regular troops and the development of an indigenous officer corps, by periodic exercises for the local volunteer units, and by improved pay, equipment, and training for the Home Guard, current plans envisage a Malayan defense organization which will be capable, within the next few years, of dealing with internal security problems and able to handle small-scale border violations. Plans for containing the Communist guerillas are based on the continuing availability of UK troops to supplement and aid the Federation defense organization. As the Malayan

forces are strengthened and trained, the British forces will phase out of the internal security picture over the next five years.

10. Under the financial arrangements made at the time of independence, the British agreed to provide a substantial portion of the cost of fighting the jungle war and of the expansion of the Federation armed forces. For the current hostilities, the British will provide annual grants of about US \$8.3 million for three years and, subject to review, up to \$30.7 million over the two subsequent years. In addition, the UK will provide approximately US \$45 to \$50 million for expanding and equipping Federation armed forces.

11. The Royal Malayan Navy at present consists of approximately 650 officers and men and nine small patrol craft. An officer on loan from the Royal Navy is in command. The navy was raised by Singapore legislation and, until Federation independence, was wholly financed and administered by the Singapore government. However, it is now in process of being transferred to the Federation to form the nucleus of its new navy and plans are being made to develop a Federation navy base on the west coast, probably at Lumut, near Port Swettenham.

12. There is a Malayan auxiliary air force, formed in 1950, made up of volunteer reservists and ten small aircraft. There are plans for developing an effective indigenous air force, but such a force is not foreseen in the near future.

C. The Anglo-Malayan Defense Agreement

13. The special relationship between the Federation and the UK in matters of internal security and external defense is embodied in an Anglo-Malayan External Defense Mutual Assistance Agreement concluded at the time of independence. The agreement provides: (a) that the UK will assist the Federation in maintaining internal security as long as the latter considers such assistance necessary; (b) the UK will assist in the training and equipping of the Malayan defense forces over

a five year period; and (c) the British will retain a responsibility for the Federation's external defense. In exchange for these commitments, the British are granted the right to maintain armed forces, including a Commonwealth Strategic Reserve, in the Federation. The agreement provides army, navy, and air base rights, including a strategic bomber base near Penang, necessary for the UK to fulfill its obligations for the defense of Malaya as well as for Commonwealth and regional security. The agreement also provides that the two governments will cooperate in taking action in case of an armed attack upon Malaya or upon British Far East possessions, and that they will consult on necessary measures in the event of a threat to the peace in the Far East. There is no time limit on the agreement and either party may propose review at any time.

14. The following Commonwealth forces are available in the Federation and Singapore to assist in maintaining internal security and to fulfill local and regional commitments under the Anglo-Malayan Defense Agreement:

a. Approximately 25,000 ground forces comprising 13 infantry battalions (5 British, 6 Gurkha, 1 Australian, and 1 New Zealand); 1 armored car regiment; 1 airborne regiment; and 1 artillery regiment, organized under 4 brigade headquarters.

b. Approximately 7,500 air force personnel, including about 330 pilots and 150 bombardier navigators. There are about 100 aircraft, including 46 jets, based in Singapore; 90 aircraft, including 18 jets, are based in the Federation. The Federation itself has 19 airfields, 14 of which are limited to C-47's or smaller aircraft. The other five are capable of supporting jet fighter or jet light bomber operations.

c. Approximately 3,750 naval personnel, and 1 light cruiser, 1 anti-aircraft cruiser, 4 destroyers, and 3 escort vessels are based in Singapore and the Federation. In an emergency, of course, the entire Commonwealth naval strength in the Far East could be made available.

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ANNEX C

THE ECONOMIC SITUATION

1. The Federation had a per capita GNP of approximately US \$260 in 1956, well in excess of other independent countries in Southeast Asia. It has over 6,000 miles of maintained highways, 1,000 miles of efficiently administered railways, and 238,000 kilowatts of installed electric generating capacity. Although the Federation began independence with a generally favorable economic situation, there are basic economic problems which will remain and possibly become more acute in the future. Its resource base is narrow and unstable and the state of its economy depends on the world prices of rubber and tin. As a result of the loss of many experienced British professionals, the Federation has a shortage of technical and administrative personnel. This situation will challenge the resourcefulness and competence of the newly independent government, at a time when the demands of economic development and financial reform are increasing. The Federation also has a high rate of population growth, estimated at slightly over three percent annually, which will require at least correspondingly rapid increases in investment, production and social services to maintain living standards.

2. Rubber and tin are the essential bases of the Federation's economy, accounting for approximately two-thirds of the value of all exports, rubber alone comprising over one-half. Over one-quarter of all gainfully employed persons are directly engaged in these two industries and a large part of the population depends on them directly or indirectly. The Federation produces about one-third of the world's natural rubber, and slightly over one-third of the Free World's supply of tin. It is a major supplier of the US in both products. Because of its heavy export of rubber

and tin to the US, the Federation is the major net contributor to the sterling area dollar pool.

3. The Federation's economy is oriented toward international markets. Per capita foreign trade amounted in 1956 to \$205, exceeded in the Far East only by Singapore and Hong Kong and much higher than Japan's \$63 per capita. Along with the predominance of the rubber and tin industries, there is a serious deficiency in food production, and manufacturing is not well developed. The Federation, consequently, relies heavily on imports for essential consumption requirements. The concentration of economic activity on production for export and the corresponding reliance on rubber and tin earnings for imports places the Federation's economy virtually at the mercy of international market conditions. Despite this high degree of specialization and resulting vulnerability to external influences, conservative administration has, in the past, enabled the Federation consistently to maintain a favorable trade balance, ranging from \$500 million at the height of the Korean War rubber boom, to \$50 million in 1953, one of the lean years.

4. Malayan rubber and tin face serious competition and measures are being taken to improve their position in international markets. The tin industry claims that proven tin resources are declining; there has been little exploration since 1930. However, the adoption of more modern mining methods has tended to counterbalance this threat over the short run and to maintain production volume. Added incentive for state rulers to make land more readily available for prospecting and mining may develop from a provision in the new constitution which provides that ten per-

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cent of the export tax revenue on tin will be turned over to the state in which the mineral was mined. In the absence of more attractive alternatives and in anticipation of a long-term increase in the use of rubber, the Federation has embarked on a vigorous improvement program aimed at cutting rubber production costs and increasing output. Under this program the annual rate of new planting and replanting has reached four percent of total rubber acreage. The Federation hopes that such measures, reinforced with intensive research, will help its natural rubber to compete successfully with synthetics.

5. Under the British, the Federation and Singapore formed a single economic unit. The Federation's primary production and Singapore's outstanding facilities as a trade and financial center were developed in concert and on a basis of mutual dependence. Approximately 40 percent of the Federation's trade passed through Singapore, constituting a substantial portion of the latter's critical entrepôt trade. Much of the Federation's direct trade and its domestic transactions were handled through the banking, insurance, shipping and trading facilities of Singapore. The separate political evolution of the Federation into an independent nation weakened the close economic ties between the two areas. Moreover, the Federation government, largely for political reasons, has adopted a deliberate policy of severing as many economic ties with Singapore as possible, to the economic detriment of both.

6. The communal problem has a variety of economic implications. Because of the greater economic initiative of the foreign elements, mainly British and Chinese, the government has provided special protection to the less enterprising Malays. Communal problems may increase as conflicts of interest develop between the large foreign-owned estates and the Malay small holders and between Chinese businessmen and the Malay peasants. The unequal distribution of income, with a larger part accruing to alien interests, may cause serious friction in the future. The non-fulfillment of the exaggerated benefits expected from independence may serve to concentrate

criticism on the control held by non-Malays over much of the country's productive plant and on the outflow of profits.

7. Basic factors in the economic outlook are the Federation's planned financial reforms and its economic development plan. The financial reforms are designed to bring the currency under national authority and to develop a domestic money market to serve the Federation's capital needs. The government plans to withdraw from the British-controlled currency board, which at present administers in a combined operation the currencies of the Federation, Singapore, and British Borneo, and to establish its own central bank. This will enable the government to reduce the 100 to 110 percent sterling cover of the Federation's currency and to invest part of it in Malayan securities. Complementary plans are to encourage the development of financial institutions and to enlarge official credit facilities for rural and industrial enterprises. A rural bank and an industrial development bank have already been established. In addition, the government has assured existing foreign interests of continued equitable treatment and proposes to encourage further private foreign capital investment. Federation leaders emphasize that their financial reforms do not imply withdrawal from the sterling area and that the Federation's dollar will continue to be pegged to the pound; however, unless managed with high competence, these measures may weaken confidence in the currency.

8. The Federation of Malaya has adopted a comprehensive economic development plan calling for capital outlays totalling US \$444 million from 1956 through 1960. The United Kingdom has agreed to contribute \$50 million for projects under the plan. The Federation's intention to raise the remainder by drawing on surplus and by borrowing appears feasible without risking undue deterioration in financial stability, provided the rate of progress is adjusted, as proposed, to the level of export earnings and to the availability of technical and administrative personnel.

9. Under the plan, the government has limited its sphere of action to the expansion of public

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works and to the provision of financial facilities to producers. Actual production, except in such fields as electric power and similar public services, is left to private enterprise. Although proposed expenditures in several categories are designed to assist local manufacturing and to promote the production of foodstuffs, a major portion (\$52 million) of the

proposed investment is to be devoted to the strengthening of the rubber industry, primarily by replanting with better yielding varieties. Electric power development is allotted \$26 million, and the remainder in the economic sector, about \$80 million, is to be devoted almost entirely to transportation and communications.

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ANNEX D

THE SITUATION IN SINGAPORE

1. Internal security and general political stability in Singapore have improved under Chief Minister Lim Yew Hock. Lim, who succeeded the impetuous David Marshall in 1956, has taken an increasingly strong anti-Communist position, making liberal use of his powers and the full backing of the British authorities to arrest Communist and pro-Communist leaders of the People's Action Party and Communist activists in the Chinese middle schools and the trade unions. Although the Communist movement has been kept off balance by the government's aggressive anti-Communist program, the basic factors contributing to Communist strength remain. Communist influence, especially in the Chinese schools and the labor movement, is still strong; political problems susceptible to Communist exploitation persist; and economic problems are increasing.

2. Singapore's rapidly increasing population of 1,495,000 is about 77 percent Chinese. Sixty percent of these Chinese are under 21 years of age and many are susceptible to Chinese Communist propaganda and pressures. Most Singapore Chinese are impressed by the rise of Communist China and continue their emotional attachment to the mainland. The younger Chinese tend to feel their opportunities for higher education and for economic advancement in Singapore are limited. These feelings are intensified by the fact that Singapore's entrepôt trade is declining and by Singapore's uncertain economic outlook, resulting in part from Federation independence and the lessening of economic ties between the two areas.

3. Singapore has not achieved the degree of internal political stability of the Federation. The British had originally hoped that both parts of the peninsula would progress toward

self-government and independence together, but have had to postpone independence for Singapore for the foreseeable future. In April 1957, however, a Singapore government delegation headed by Chief Minister Lim Yew Hock signed an agreement with the UK which provides for the establishment of internal self-government during the latter part of 1958. Under this arrangement, the British will remain responsible for external defense and foreign relations, and the Singapore government will exercise internal self-government except for security matters. Responsibility for internal security was assigned to an Internal Security Council of three members from Singapore, three from the UK, and one from the Federation. The Federation authorities agreed to this arrangement with considerable reluctance because of their desire to avoid any entanglement in Singapore's security problems. The British retained the right to withdraw the Singapore constitution if the internal situation should deteriorate sufficiently to threaten the ability of the council to carry out its obligations.

4. The Singapore government, led by the moderate socialist Labor Front since 1955, has 25 elective and seven appointive seats in the Legislative Assembly. Six of its nine cabinet posts are appointed on the recommendation of the majority leader of the Assembly. Singapore remains a Crown Colony with ultimate authority in the hands of a British-appointed governor. He has a veto power over legislation and the right to appoint the ministers who hold the cabinet posts for defense and internal security, finance, and justice.

5. During the past year, the People's Action Party, the major opposition, fell under increased pro-Communist control. Although

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Lim has managed to create some confusion in the party's ranks by political manipulation and by his arrest of 30 of its top leftist leaders, the People's Action Party still remains the strongest and best organized political organization in Singapore. In November 1957, ex-Chief Minister David Marshall inaugurated an opposition Worker's Party. The party pledges parliamentary democracy, socialism, and independence for Singapore, and it has adopted an "anti-colonial" line. In his organization campaign, Marshall, who visited Communist China shortly after his ouster as Chief Minister, made special efforts to attract Chinese support and attacked the government's security program.

6. Lim Yew Hock's anti-Communist leadership has provided an opportunity to salvage the deteriorating political situation in Singapore. However, Lim has not succeeded in building a strong, non-Communist political organization, and his government rests on a weak coalition which maintains power only because of the seven appointed members of the Legislative Council. The weak foundation of his government and the widespread Communist activity among Singapore's Chinese, especially in the schools and labor unions, emphasize the difference between the political situation in Singapore and in the Federation.

7. In local elections held on 21 December 1957, the People's Action Party won a plurality of Singapore's 32-seat City Council. The party carried 13 out of 14 districts which it contested. Lim Yew Hock's Labor Front won only four out of 16 seats sought. Although the two parties did not run candidates in direct competition, the outcome represented a severe loss of prestige for the Labor Front. Further evidence of a leftward trend was disclosed by the success of former Chief Minister David Marshall's new Worker's Party in winning four out of five seats it contested, whereas the conservative Liberal Socialists gained only seven out of 32 seats. The election results pointed up the failure of Lim Yew Hock's efforts to consolidate non-Communist political forces or to isolate left-wing forces.

8. The chances appear somewhat less than even that Lim Yew Hock will be able to

maintain his anti-Communist government in power after the 1958 general elections. If the economic situation deteriorates to any significant extent, a left-wing government dominated by the People's Action Party will probably come into power. Over the long run, the prospects are that leftist and Communist strength will increase.

9. Available for the preservation of internal security in Singapore, in addition to the UK units,¹ are approximately 4,500 police, including reserves, and the Special Constabulary of 1,300 active and 1,100 volunteer reserve members. The Malays outnumber the Chinese about four to one in the police, but the Chinese predominate in the higher ranks. The problem of replacing top British officers is difficult because indigenous officers are not experienced. Singapore's government in March 1957 began to recruit a volunteer battalion of 800 men with the intent of enlisting about 75 percent Chinese. The local internal security forces probably could not maintain law and order in the event of large-scale riots or demonstrations in Singapore without the assistance of the regular British troop units stationed in Singapore.

10. Singapore continues to be the main British military base in the Far East, with important functions in British Commonwealth and regional defense. In addition, it is still an important commercial center. For these reasons, and because of the basic political instability of the colony, the British are unlikely to consider independence for Singapore in the near future. Furthermore, the British, who we believe have adequate forces in the area to maintain internal security, will probably suspend the Singapore constitution and assume direct rule in the event of either a threatened loss of control of the situation by the elected government or a Communist take-over.

11. Merger of Singapore with the Federation is the ultimate goal of Singapore authorities and of many British officials. These latter feel that merger might reduce the threat to British strategic interests posed by political instability and Communist subversion in

¹ See Annex B, paragraph 14, for the strength of these units.

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Singapore. Lim Yew Hock and other Singapore leaders are aware of the emerging economic and political problems which result from the dwindling economic ties with the Federation. Commercial shipping and banking in Singapore generally favor merger in order to perpetuate Singapore's present position as the principal entrepôt for the Malay peninsula.

12. The Communists believe that merger would increase their ability to subvert the Federation. For this same reason, the Federation opposes merger. To Rahman and the Alliance government, Singapore is a hotbed of Communism which must be isolated from the Federation. Furthermore, the Federation's leadership know that merger would give the Chinese a numerical majority.

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